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UNCLAS CAIRO 003146

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SUBJECT: GOE RESOLVES SOFT DRINK SALES TAX ISSUE

1. (U) On March 31, 2005 the GOE official gazette published Law No. 9 of 2005, which amends Sales Tax Law No. 11 of 1991. The amendment, effective April 1, removes soft drinks and non-alcoholic beer from Table A of the sales tax schedule, the "luxury goods" table. Luxury goods on Table A are subject to 50 percent tax on items less than 250 cubic cm in size and 60 percent on items over 250 cubic cm. The amendment moves soft drinks and non-alcoholic beer to another table. Items on this table are subject to a single tax rate of 25 percent on finished products, regardless of size. Producers manufacturing items on this table are also able to deduct from the 25% tax paid on finished products all of the tax paid on capital goods and inputs into the production process.

2. (SBU) Magdy Radwan, Tax Manager for Pepsico, told post on April 27 that moving soft drinks off of Table A addresses most of the concerns of soft drink manufacturers. With the deduction noted above, this amendment moves the effective sales tax rate on soft drinks in Egypt closer to the international norm of 10 percent. Radwan stated that soft drink manufacturers have also negotiated an agreement with the GOE tax authority to allow companies to retain some of the tax breaks they enjoyed prior to passage of the amendment. Specifically, companies will be able to maintain the 22 percent deduction for distribution costs which the Ministry of Finance had authorized for the last several years to offset the high tax rate paid by soft drink producers. Companies will also be able to pay the three phases of the sales tax (production, wholesale and retail) in one payment. Radwan said that he planned to accompany the Chairman and CFO of Pepsico to meet with the Minister of Finance on April 28 to sign the agreement.

3. (U) Comment: If Radwan's analysis is correct, passage of Sales Tax Law No. 9 has resolved the sales tax issue on which the GOE has stalled for so long. Post is translating the text of the amendment, which addresses a number of other issues in Egypt's complicated sales tax system. Post will provide additional assessment after translating and conferring with Radwan's counterparts at Coca-Cola. End Comment.

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GRAY